



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 12/12/2001

GAIN Report #BK1002

Bosnia-Herzegovina

Market Development Reports

The Monetization Process of USDA Commodities 2001

Approved by:

Robert H. Curtis

U.S. Embassy Vienna

Prepared by:

Robert H. Curtis

Report Highlights:

The monetization of donated USDA commodity to Bosnia i Herzegovina (BiH) through 416(B) or Food for Progress Programs is often misunderstood. Following is a brief summary of the process in an attempt to explain it.

USDA and Private Voluntary Organizations refer to these USDA commodities as donations, but to BiH millers this is a commercial transaction.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Vienna [AU1], BK

Private Voluntary Organizations (PVOs) such as CARE, Catholic Relief Service (CRS), United Methodist Committee on Relief (UMCOR), International Orthodox Christian Charities (IOCC), Partners for Development (PFD), Mercy-USA and World Vision, as well as others, form the core of the monetization process in Bosnia i Herzegovina. The PVOs initiate the entire process by submitting proposals to USDA on the types of developmental programs they would like to conduct in the agricultural sector.

The Vienna Agricultural Affairs Office (VAAO) has responsibility for overseeing United States Department of Agriculture (USDA) activities in seven countries in the region, Bosnia i Herzegovina being one of them. The VAAO submits an evaluation of the status of domestic commodity production, projected consumption amounts and estimated import needs. (Recently, focus has been on wheat and sunflower seed oil that are eligible for USDA programs.) The import needs are compared with normal commercial import amounts over a 5-year period. The difference between domestic production and normal commercial imports is the amount that may possibly be programmed for USDA commodity donations. A major objective of the program is to ensure that neither commercial production nor imports are displaced. The VAAO recommends commodity amounts to USDA after consulting with BiH government representatives, traders and other sources knowledgeable about the commodity situation.

USDA determines the amount and type of commodity to be programmed in Bosnia i Herzegovina after consulting with FAO's Committee on Surplus Disposal. USDA also reviews the program proposals submitted by the PVOs and selects the best proposals and activities for funding. Funding in previous years does not guarantee continued funding in following years.

The selected PVO programs identified in the proposal chose the manner in which the donated USDA commodities will be sold on the market (monetized) to obtain the funds necessary to conduct the proposed activities. Currently, there exists two ways for PVOs to monetize commodities: sell directly through a tender/bid process or participate in the UMCOR Consortium. The UMCOR consortium is also a tender/bid process, however it is conducted for all USDA-selected PVOs who stated in their proposal they wanted to participate in the Consortium. The Consortium process permits PVOs to focus on their activities and lets UMCOR's monetization office focus on the tender/bid process. Note: all Consortium members receive equal proceed amounts, after deducting any administrative costs incurred by UMCOR. The Consortium financial process is transparent ensuring that all participants are receiving the same amount of proceeds.

The tender/bid process conducted by UMCOR or other PVOs is often misunderstood in Bosnia. Following is the process used for wheat. Sunflower-seed oil would use a very similar process, though sometimes the oil is bottled and sold on a per liter cash-and-carry basis. A public notice that bids are being received for wheat is placed in the major papers in the Republica Srpska and the Federation of Bosnia i Herzegovina to ensure that all flour mills in BiH have the opportunity to bid on available wheat. This notice establishes conditions for bidding. The tender amount is based on world market prices and usually with delivery to the flour mill. (Wheat is delivered to the port of Ploce' in Croatia and transported by train to various locations within Bosnia i Herzegovina.) Wheat quantities are usually in lots of 5,000 metric tons enabling nearly all BiH

mills the possibility of bidding on and handling this amount of wheat. Many small mills simply couldn't handle, nor store, a shipment of 15,000 metric tons or more. Flour mills interested in bidding on the wheat submit to the amount they would like to pay for the wheat to the Consortium, or PVO conducting the bid/tender. On the date specified in the notice, the bids are opened and the flour mills who offered the highest price for the wheat are awarded that quantity.

Many BiH millers ask us, "where is the donation?" USDA and PVOs talk about donations or donated commodities while the BiH millers are conducting commercial transactions. The wheat, or other commodity, is donated to the PVO for monetization purposes. The millers pay for their wheat and must have a letter of credit from a reliable bank guaranteeing they will pay for their bid to be accepted by the PVO. The money the PVO receives from the millers through the monetization process enables them to conduct their activities. No amount of donated commodity is allocated to a certain area or group within BiH. The highest bidder takes the product. The bid process also helps prevent disruption of commercial sales.

VAAO representatives have regular contact with the PVO monetizers and hold quarterly meetings with all the monetizing PVOs to establish shipment/delivery schedules, discuss problems that may have arisen in the monetization process, suggest solutions to avoid problems in the future. The quarterly "monetizers" meetings and the nearly monthly visit of VAAO representatives to Bosnia i Herzegovina ensure that problems can be addressed as they crop up and prevent them from becoming larger issues for all PVOs. The quarterly "monetizers" meeting has also opened up a mode of communication between the various PVOs so that they are comfortable discussing issues and concerns among themselves rather than waiting for a quarterly meeting.

Nearly every PVO utilizes a portion of their proceeds to fund agricultural micro-credit programs so small farmers and rural residents can establish economic activities. This is especially important in Bosnia i Herzegovina where the basic infrastructure was destroyed during the war. Examples of other activities include the development of farmer organizations, combined marketing activities to obtain better market prices, distribution of fruit trees and vegetable seeds for gardens, and the establishment of quarantine stations to prevent the import of infected animals while also preventing the spread of contagious diseases to man and animals.

The Consortium process has worked well in Bosnia i Herzegovina because it is a transparent process for the PVOs, commodity allocation is based on price, UMCOR has an excellent monetization staff, UMCOR has become well known to the BiH flour millers, plus there are no unnecessary participants in the monetization process, just buyers and sellers.

The UMCOR Consortium has ranged in size from four members to seven members, or more, depending upon yearly USDA programming. The thought of having up to 7 more PVOs monetizing small amounts of commodities along with the current three monetizers would cause unnecessary market and administrative confusion.